Manchester City Council
Report for Information

Report to: Resources and Governance Scrutiny Committee – 7 December 2017

Subject: Chancellors Autumn Budget update

Report of: The City Treasurer

Summary

This report provides an overview of the key announcements within the Chancellor of the Exchequer's 2017 Autumn Budget outlining the Government's fiscal agenda, and the implications for Manchester.

Recommendations

Members are asked to note the report.

Wards Affected:

All wards

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Background documents (available for public inspection):

2017 Autumn Budget document is available on the Government's website
https://www.gov.uk/government/publications/autumn-budget-2017-documents

1 Introduction

1.1 On 22 November 2017 the Chancellor of the Exchequer, Philip Hammond, delivered his Budget statement which set out the next stages of the Government's long term economic plan. This is the first Autumn Budget as the Government has moved to a single fiscal event each year, with a Spring Statement.

1.2 A further devolution agreement with Greater Manchester was published alongside the 2017 Autumn Budget. The key points are summarised in this briefing.

1.3 Overall there is very little which has a fundamental impact on our budget strategy or financial position.

2 Overview

2.1 The Spring Budget outlined the Office for Budgetary Responsibility's (OBR) forecasts for economic growth and government borrowing with growth forecast at 1.5% in 2017, down from 2% in the Spring. The OBR forecast has growth falling to 1.4% in 2018, 1.3% between 2019 and 2020 before rising to 1.5% again by 2021. The OBR has attributed slower growth to the fall in the pound that followed the EU Referendum No Vote which has acted to push up consumer prices and squeeze household incomes and spending.

2.2 The OBR expects average earnings to be below CPI inflation with 2.3% in 2017-18 and 2018/19. However the average earnings is forecasted above CPI in 2019/20 onwards with 2.3% in 2019/20, 2.6% in 2020/21 and 3.0% in 2021/22.

2.3 The deficit is forecast to be £49.9bn in 2017/18, down by £8.4bn from the previous forecast, falling to £25.6bn by 2022/23. The Government has achieved this largely by announcing fresh sales of RBS shares and by passing regulation that reclassifies housing associations as private bodies, wiping £66bn debt off the Government balance sheet.

2.4 The continued reduction of economic forecasts means a continuation of austerity for at least a year longer than planned. There are no changes to Departmental Expenditure limits affecting local government and there remains considerable uncertainty on what the process will be for the next Spending Review/Local Government funding beyond 2019/20.

3 Brexit

3.1 The Chancellor confirmed the Government's commitment to Brexit and having already put aside £700m he allocated a further £3bn over the next 2 years for the costs of Brexit.

3.2 In terms of access to EU funding, the Government announced on the 3rd October 2016, that all ESIF funding commitments (if they demonstrate value for money and are in line with domestic strategic priorities) that are under contract before the UK leaves the EU will be honoured by HM Treasury, even if those projects are contracted to continue beyond the date of exit. The UK Shared Prosperity Fund will replace ESIF funding following the UK's exit from the European Union. However there was no further announcement or detail in his statement.

4 Business Rates & Taxation

4.1 The Spring Budget 2017 announced an additional £435 million in this Parliament to support businesses most affected by the recent revaluation. In light of the rise in inflation, the Government will provide a further £2.3 billion of support to businesses over the next 5 years. This support includes:

- bringing forward to 1 April 2018 the planned switch in indexation from retail price index (RPI) to the consumer price index (CPI); the switch to CPI for the multiplier will have direct financial consequences as CPI is normally lower than RPI (projected c1.2% difference), and will result in lower business rate growth and income for local authorities
- continuing the £1,000 business rate discount for pubs with a rateable value of up to £100,000 for one year from 1 April 2018. This is unlikely to benefit those premises in the city which are already subject to rates relief;
- increasing the frequency with which the VOA revalues non-domestic properties by moving to revaluations every three years following the next revaluation, currently due in 2022. This will cause more regular upheaval – but the shorter periods ought to lessen the financial impact of revaluations when they occur, both for businesses and for local authorities.
- Government are legislating retrospectively to address the so-called "staircase tax". The tax affects the valuation of offices on multiple floors connected with public stairways. The VOA had recently started to issue bills – with a large backdated element – to businesses following a recent Supreme Court decision. The Federation of Small Businesses (FSB) estimates that 80,000 properties are affected.

4.2 Local government should be fully compensated for the loss of income as a result of these measures (via S31 grant). How this will operate will be confirmed in the Local Government Finance Settlement.

4.3 The Chancellor announced an increase in tax on low-quality alcoholic drinks but duties on other alcoholic drinks, including wine and beer, will be frozen. Duty rates on all tobacco products will increase by two percentage points above RPI inflation until the end of this Parliament.

5 Council Tax

5.1 The Government is proposing to legislate to allow local authorities to extend the Empty Homes Premium from 50% to 100% which is in addition to a full 100% council tax charge for properties unoccupied and unfurnished for 2 years or more. This looks to have been formulated to target the so called 'buy-to-leave' landlords prevalent in the prime central London housing market. There is little evidence of similar trends in Manchester with only 0.3% of properties currently unoccupied for 2 years or more and liable for the Premium.

6 Housing

6.1 The Chancellor confirmed various funding arrangements across a number of programmes some of which had been announced previously and some of which were new. In summary, over the next five years, £13.5bn of additional funding has been committed, taking the total to £44bn of capital funding, loans and guarantees provided to achieve the target of 300,000 new homes annually. This funding includes:

- £8bn of financial guarantees to support private housebuilding;
- a £2.7bn Housing Infrastructure Fund (more than doubling the original fund, which has been heavily over-subscribed);
- £1.1bn for a new Land Assembly Fund. This new fund will enable Homes England (the renamed Homes and Communities Agency) to work alongside private developers to develop strategic sites;
- £630m for a Small Sites Fund;
- £400m of loan funding for estate regeneration for run-down neighbourhoods and new homes in high-demand areas;
- £204m has been allocated to finalise the Construction Sector Deal, including £34m to progress construction skills development.

6.2 Work is being carried out on a housing deal for Greater Manchester. As part of that deal access is sought to a significant proportion of the Housing Infrastructure Fund, therefore the increase in funds available is welcome. We await further details on the new funding announced, but given the focus of the GM Housing Deal on land assembly and remediation, it is envisaged that the new Land Assembly Fund could offer significant opportunities to GM.

6.3 The Chancellor re-affirmed £10bn funding for Help to Buy in order to help first time buyers. Help to Buy has benefited over 1,000 Manchester residents over the last 5 years.

6.4 The Government will permanently raise the price at which a property becomes liable for Stamp Duty Land Tax (SDLT) to £300,000 for first-time buyers (FTBs), effectively removing the tax for the overwhelming majority of FTBs in the city.

6.5 Housing Revenue Account borrowing caps will be lifted for councils in areas of high affordability pressure. Local authorities will be invited to bid for increases in their caps from 2019-20, up to a total of £1bn by the end of 2021-22. The government will monitor how authorities respond to this opportunity, and consider whether any further action is needed. Whilst this is a positive development, and GM has been lobbying for an increase in HRA borrowing caps for some time, it is disappointing that this is through a bidding process and it will be important to see the criteria.

6.6 In areas where private rents have been rising fastest, the Government will increase some Local Housing Allowance (LHA) rates by increasing Targeted Affordability Funding by £40 million in 2018-19 and £85 million in 2019-20. This will benefit landlords and tenants, almost exclusively in London and the South-East, where the lowest proportion of the Private Rented Sector is affordable on LHA.

7 Planning

7.1 The Government will establish an urgent review panel, Chaired by Sir Oliver Letwin, to tackle developments with planning permission that do not build out. Manchester has a strong track record of converting planning permissions into new homes. The number of units starting on site across the city has grown over the past 3 years, from 2,954 in 2015/16, to 3,973 in 2016/17 to a forecast 4,700 in 2017/18.

7.2 Further announcements relating to planning include:

- a new centralised register of residential planning permissions;
- the removal of the restriction on Section 106 pooling;
- a consultation on strengthening the Housing Delivery Test by setting the threshold at which the presumption in favour of development applies at 75% of housing delivery by 2020;
- expecting councils to bring forward 20% of their housing supply as small sites to encourage greater competition between housebuilders;
- a consultation on introducing minimum densities for housing development in city centres and around transport hubs, with greater support for the use of compulsory purchase powers for site assembly;
- a permitted development right to allow commercial buildings to be demolished and replaced with homes.

7.3 These proposals continue the Government's recent approach to planning, including a single focus on the delivery of housing and an apparent belief that responsibility for delivery below targets rests solely with councils. MCC will have concerns over proposals to support the development of employment land for residential uses, particularly through extensions to permitted development rights. This could undermine the ability of the council to manage the quality of place and to achieve the level of economic growth required to support GM aims. There will be concern from many councils, including Manchester, over the introduction of the housing delivery test, as this will potentially weaken the status of local plans, even where there is a large pipeline of housing planning permissions.

7.4 The proposal to introduce minimum densities in urban and accessible locations is positive, but there may be questions over whether this is an approach that should be determined by central government and whether changes to national policy will be needed to give it effect.

8 Homelessness

8.1 The Chancellor announced investment of £28m in Housing First pilots in three areas across England, one of which will be in Greater Manchester (GM). This will support rough sleepers with the most complex needs. Under this approach individuals will be provided with accommodation alongside intensive key worker support to enable them to recover from issues such as mental health or substance abuse and sustain their tenancies.

8.2 The Budget included the establishment of a homelessness taskforce as part of the Government's commitment to halving rough sleeping by 2022 with the aim of eliminating it altogether by 2027.

8.3 The Government will also provide £20m funding for schemes to support people at risk of homelessness to access and sustain tenancies in the private rented sector.

9 Health & Social Care

9.1 No additional funding was announced to address funding shortfalls in adult social care. In the Spring Budget the Chancellor announced an extra £2bn for social care over the next three years, with Manchester's allocation of this funding totalling £24.3 million with £12.9 million in 2017/18 which is included within the Council's spending plans. The Green Paper on adult social care reform, which had been expected this year, is now expected by Summer 2018

9.2 Health and social care has become one of the biggest issues facing Government and Manchester has been leading calls to address the funding shortfall. The Office of Budget Responsibility had warned the NHS faces a £20bn funding gap by the end of this parliament and a recent joint-report from the Kind's Fund, Nuffield Trust and Health Foundation said the health service needed at least £4bn over the next year.

9.3 In response to increasing pressure, the Chancellor announced the following additional funding for the NHS:

- £10bn of capital investment in frontline services by 2020 to help support England's 44 Sustainability and Transformation Plans; £3.5bn is additional funding of which £2.6bn will be for local Sustainability and Transformation Partnerships (STPs). Funding is intended to transform services and develop more integrated services and out-of-hospital

services, which ought to include adult social care.
- an additional £2.8bn of resource funding to the NHS in England, with £350m available immediately for winter pressures, £1.6bn in 2018-19 and the balance in 2019-20;
- if independent pay review supports, then additional funding will be made available for NHS pay increases to support nurse retention.

9.4 Whilst there is no new funding for adult social care, there was an announcement on Disabled Facilities Grant. An additional £43m is made available to local authorities in 2017-18 (bringing total DFG funding to £473m)

10 Productivity, Transport & Infrastructure

10.1 The National Productivity Investment Fund (NPIF) of £23bn over 5 years, which was announced last Autumn, has been expanded to £31bn over 6 years.

10.2 Further announcements to support increased productivity include:

- the Research and Development (R&D) tax credit has been raised from 11% to 12%. This follows a reduction in the administrative burden of tax credits for R&D in the Spring Budget;
- a further £2.3bn announced for investment in R&D in an effort to drive up R&D investment across the economy to 2.4 per cent of GDP;
- £500m invested from the British Business Bank in a range of initiatives from AI, 5G and full fibre broadband.
- The government confirmed that it will lend local authorities in England up to £1 billion at a new discounted interest rate of gilts + 60 basis points accessible for three years to support infrastructure projects that are high value for money. Details of the bidding process will be published in December 2017.

10.3 The Chancellor announced a new £1.7bn Transforming Cities Fund (drawn from the £31bn NPIF) with half to be shared by the six areas with elected Metro Mayors (shared on a population basis), and the rest open to competition. The Fund will support intra-city transport by targeting projects which drive productivity by improving connectivity and reducing congestion. £243m of this Fund has been allocated for GM spread over 4 years.

10.4 The Government's commitment to Northern Powerhouse Rail has been underlined by a £300m fund, previously announced in October 2017, to ensure High Speed 2 (HS2) infrastructure can accommodate future Northern Powerhouse rail services. Transport for the North are working up the case for these services.

10.5 To support uptake of electric vehicles, a £400m charging infrastructure fund has been set up comprised of £200m government investment matched by the private sector. A further commitment to investing an extra £100m in the plug-in-car grant, and £40m in charging R&D, was also announced. A number of electric vehicle charging posts have been installed throughout the city, including rapid charging points. TfGM are exploring a model for delivering a comprehensive network of charging infrastructure as a potentially publicly owned and run network.

10.6 The Chancellor announced a £220m Clean Air Fund to tackle poor air quality. This will be funded by targeted changes to company car tax and to vehicle excise duty for those buying new diesel cars. The Clean Air Fund will be available in 2018 and will support people and businesses in adapting as measures to improve air quality are implemented in local authority areas with the most challenging pollution problems.

10.7 The Chancellor announced the extension of the benefits of discounted rail travel to include the introduction in spring 2018 of a new railcard for ages 26 to 30 available on all non-peak services.

11 Work and Skills

11.1 From April the Living Wage will increase from £7.50 to £7.83 per hour, an increase of 4.4%. The Personal Allowance will be increased to £11,850.

11.2 The Government has committed to working with the GMCA to establish a Skills Advisory Panel (SAP), building on the already established GM Skills & Employment Partnership. The SAP will involve an enhanced local partnership between the GMCA, local employers, post-16 skills providers and Central Government. SAPs will have a key role in bringing together strategic planning for post-16 skills provision and the implementation of T-level qualifications announced in the Spring Budget.

11.3 Through the Working Well Programme the Government and GM have worked together to put in place a localised employment support programme that meets local labour market needs and connects the range of support services on offer.

11.4 Government and GM will work with the Department for Work and Pensions (DWP) and local Jobcentre managers to explore opportunities to improve employment support for older people, including consideration of a locally tailored offer targeted at the over 50s.

11.5 The Ministry of Justice (MoJ) and GM have been working together to deliver improved criminal justice outcomes, following the first justice devolution deal in March 2016. Building on this agreement will involve improved integration between education provision within prisons and work and skills opportunities in the community. To deliver this there will be a refresh of the joint Memorandum of Understanding by March 2018, clearly defining the roles and responsibilities of stakeholders. A particular focus will be given to better integration of adult education and skills training provision in the community with education provision in prisons, ensuring that empowered prison governors are supported to deliver within their institutions.

12 Welfare Reform & Universal Credit

12.1 After a period of significant political pressure, the Chancellor has allocated £1.5bn to address issues with the rollout of Universal Credit:

- New claimants in December will be able to receive an advance of 50% of their monthly entitlement at the beginning of their claim and a second advance to take it up to 100% in the New Year, before their first payment date.
- From January 2018 those who need it, and who have an underlying entitlement to Universal Credit, will be able to access up to a month's worth of Universal Credit within five days via an interest-free advance.
- the initial seven day waiting period for Universal Credit will be scrapped, meaning that the wait for payment should be reduced from six to five weeks from February 2018;
- one month advances, which claimants currently have to pay back in 6 months, can be paid back over 12 months;
- from April 2018, claimants already receiving housing benefit can keep on doing so for two weeks after their Universal Credit claim, which should make it easier to cover rent payments during the transition period.
- The roll out will be 'more gradual'. Roll out to all job centres will complete December 2018. There will be £8bn to support innovate approaches to help those on UC earn more.

12.2 It is too early to understand what impact these changes will have.

13 Education

13.1 The Chancellor announced a number of measures targeting maths and computer science provision in schools:

- expansion of the Teaching for Mastery maths programme to a further 3,000 schools at a cost of £27m;
- £40 million to train maths teachers nationwide, to be delivered through new Further Education Centres of Excellence;
- the introduction of a £600 maths premium for schools for every additional pupil who takes A-level or core maths. £80m will be available for this programme and there is currently no cap on numbers;

- a guarantee that every secondary school pupil can study computing, ensured by trebling the number of trained computer science teachers to 12,000.

14 Mayoral Capacity Funding

14.1 The Chancellor announced a one-off Mayoral Capacity Fund totalling £12 million over two years. This will be available to Mayoral Combined Authorities with elected mayors, including GMCA. This fund will support the new mayors by boosting their capacity and resources to deliver for their local area.

15 Local Industrial Strategy

15.1 In recognition of the place-based approach to growth and reform that has been developed in Greater Manchester Government has committed to work with GM to develop a local industrial strategy. This will be a long-term vision for growth, based on robust evidence and focused on raising productivity and earning power in the area. It will be underpinned by strong cooperation between national Government and the private sector, local leadership and key institutions.